

Department of Foreign Affairs and Trade

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

8. Other Information

8.1 Budgetary Reporting - Explanation of Major Variances

8.1A: Explanation of Major Departmental Variances

The following provides explanations of major variances between DFAT's original budget estimates, as published in the 2017-18 Portfolio Budget Statements (PBS) and the final outcome for the financial year, as presented, in accordance with the Australian Accounting Standards. Major variances are those relevant to an analysis of DFAT's performance, not merely on numerical differences between the actual amounts and budget.

There are a number of items not incorporated into PBS estimates due to their unpredictable, uncontrollable and/or unplanned nature. This includes:

- the write-down, impairment and sale of assets reported in the Statement of Comprehensive Income,
- gains or losses from foreign exchange differences reported in the Statement of Comprehensive Income and Cash Flow Statement, and
- accounting adjustments for DFAT's provision for the future make-good of leasehold improvements in leased properties reported in the Statement of Comprehensive Income and Statement of Changes in Equity.

Additionally, DFAT does not estimate or factor in revaluation adjustments for land, buildings and plant and equipment assets as these movements are beyond DFAT's control and are difficult to predict. This item impacts other comprehensive income reported in the Statement of Comprehensive Income and Statement of Changes in Equity and non-financial asset balances reported in the Statement of Financial Position.

Employee benefits in the Statement of Comprehensive Income are higher (6.9%) compared to the budget due to delays in reducing staff numbers and implementing previous budget saving measures. In addition, the impact of the discount bond rate used to value employee provisions resulted in an increase compared to last financial year on which the budget is based.

There is a flow on impact of the above movements, in revenue and expenses, to the result for the current financial year reported in the Statement of Comprehensive Income and Statement of Changes in Equity and Cash Flow Statement.

Major variances between actual figures reported in the Statement of Financial Position and the PBS estimates include:

- Cash and cash equivalents increased (608.5%) and Trade and other receivables decreased (37.3%) due to the reclassification of the Overseas Property Office (OPO) Special Account as cash rather than trade and other receivables. This change in accounting policy contained in section 48 of the FRR was implemented after the budget was prepared.

The Cash Flow Statement variance to budget analysis also includes variances due to items excluded from PBS estimates. Excluded items are section 74 receipts transferred to the Official Public Account (OPA) and subsequently re-drawn as appropriations, estimated cash transfers to and from the OPA for the OPO Special Account, and GST payments to suppliers and subsequent refunds received from the Australian Taxation Office.

Proceeds from the sale of property, plant and equipment increased (13.1%) due to the higher than expected market value of properties sold in Jakarta and Bangkok. Cash used on capital purchases was lower (42.4%) due to changed timing of capital projects that occurred after the budget was prepared.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

8.1B: Explanation of Major Administered Variances

There are a number of items that are not incorporated into PBS estimates due to the unpredictable, uncontrollable and/or unplanned nature of the transactions and adjustments related to contributions and unplanned revenue included in the Administered Schedule of Comprehensive Income.

There were higher than expected returns of prior year administered expenses reported in the Administered Schedule of Comprehensive Income (83.7%), which relate to unspent monies from previous funding arrangements. The original PBS estimate was based on forecast reductions of these returns in line with anticipated reductions in the aid program. Overall expenses are 1.5% lower due to a reduction in other grant and contributions of \$128.5 million (23.5%). Driving this reduction is a range of decisions made by international organisations such as the United Nations that passed resolutions relating to discontinuing or reducing certain peacekeeping missions during the year. Efic dividend and competitive neutrality revenue is lower (22.8%) and is based on profits generated by Efic which are difficult to estimate.

DFAT does not estimate or factor in adjustments for re-measurement of the net liability for defined benefit pension schemes, revaluation of property, plant and equipment assets or movements in the carrying amount of investments, reported in the Administered Schedule of Assets and Liabilities and corresponding entries in Other Comprehensive Income (100.0% variance) into the Portfolio Budget Statement (PBS) estimates. Similar to above, this is because the main factors that drive these movements are beyond DFAT's control, such as movements due to changes in the value of the Australian Dollar on currency markets.

The June actual cash on hand or on deposit balance reported in the Administered Schedule of Assets and Liabilities is significantly higher than estimated due to the inclusion of special account balances of approximately \$9.5 million, following an accounting policy change implemented after the 2017-18 budget was published.

The balance for trade and other receivables reported in the Administered Schedule of Assets and Liabilities (91.5% below estimates) relates to the inclusion in the budget of amounts appropriated for multilateral agreements that are drawn down in line with the agreed encashment schedules. As these are administered on behalf of Government the appropriations not yet drawn down are not recorded as receivables in DFAT's financial statements in accordance with accounting standards, but due to the substantial value, they are included in the budget estimates.

The timing of the preparation of estimates included in the PBS in April can also result in variances to actual results. PBS estimates are prepared in order to be included as part of the Federal Budget, and are based on the current financial year estimates plus adjustments - prior to the finalisation of actual balances for the financial year. Significant movements and adjustments that occur late in a financial year are not able to be incorporated into the estimates, resulting often in more obvious variances.

The impacts of the timing of PBS estimates are most pronounced for both investments and multilateral grants and contributions payables administered on behalf of Government reported in the Administered Schedule of Assets and Liabilities (9.7% and 32.7% lower respectively) due to revaluation and discounting factors applied at 30 June including the government bond rate and exchange rate fluctuations.